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May 24, 2011

J.J. Jelincic  
Chair, Investment Policy Subcommittee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Revision of Internally Managed Global Equity Index Fund Policy

Dear Mr. Jelincic:

You requested Wilshire's opinion with respect to the proposed revision to the Internally Managed Global Equity policy.

### **Recommendation**

**We recommend that the Policy Subcommittee approve the policy as submitted by Staff.**

### **Discussion**

The policy presented by Staff has a single change – the addition of a tracking error constraint for the new Emerging Markets Index Fund.

In our opinion, the tracking error outlined in the policy is extremely high, yet unavoidable. Staff intends to implement the small cap Emerging Markets fund through an ETF that is benchmarked to a different benchmark than the standard CalPERS FTSE benchmark. As a result, while the ETF being used might track the intended benchmark fairly well, there will be a higher level of tracking error for CalPERS than is typical.

As other ETFs become available and / or assets grow to a size that Staff can implement the portfolio through lower tracking error vehicles, we encourage Staff to explore future alternatives.

Please let us know if you have any questions or comments.

Best regards,

**Wilshire Associates**

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